

# Annual Audit Letter

Merseyside Waste Disposal Authority

Audit 2007/08

November 2008



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## **Status of our reports**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
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# Summary

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## Key messages

- 1** I issued an unqualified opinion on the Authority's 2007/08 statement of accounts on 26 September 2008 and in my Annual Governance report drew member's attention to the following issues.
  - The Authority needs to strengthen arrangements for preparing group accounts.
  - The Authority has capitalised costs relating to planning approvals for the proposed sites for new waste disposal facilities. There is a potential financial risk that expenditure which does not result in a fixed asset would need to be written off to revenue in the future, should these sites prove not to be viable.
- 2** I am required to conclude on whether I am satisfied the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I concluded that the Authority did have proper arrangements in place during 2007/08 and I did not identify any significant issues that warranted issuing an unqualified value for money conclusion. The Authority does however continue to face significant challenges as it leads the project to identify the procurement of waste disposal solutions in Merseyside.
- 3** During 2007/08, the procurement has been progressed in an open and competitive manner with regular reporting to the Authority and to the Merseyside Leaders and Chief Executives Group. However, the Authority's procurement timetable has slipped and the Inter Authority Agreement has still not been signed by members of the Waste Partnership to formalise partnership arrangements.
- 4** The Authority has revised its sites and planning application strategy to take into account the slow progress in negotiations with landowners to acquire sites, changed forecast waste tonnage data, the site needs of the remaining bidders in the procurement, and the introduction of offers from commercial site owners to sell land to the Authority.
- 5** Negotiations with landowners need to be resolved as soon as possible at this critical time in the procurement process. Otherwise, there is a serious risk that delay will result in significant additional waste disposal costs borne by council tax payers across Merseyside. The Authority also needs to engage effectively with the new Waste Development Plan Document process.
- 6** The impact of the procurement exercise on the Authority and Mersey Holdings Ltd will remain a key issue for our audit to support our 2008/09 accounts opinion and value for money conclusion.

- 7 The Clerk, Monitoring Officer and Treasurer gave notice of resignation in August 2008. These are important statutory posts. At the time of writing, I understand the Authority plans to go through a recruitment process to make permanent appointments. In the meantime, interim arrangements have been proposed for the Clerk and Monitoring Officer but have not yet been confirmed for the Treasurer position. I will continue to review the Authority's progress for ensuring that all statutory functions are delivered.

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**Recommendations**

- 8 My audit has identified a number of areas where improvements can be made and the most significant recommendations are shown below.

<b>Recommendations</b>	
<b>R1</b>	Continue to work with the partners to formalise partnership arrangements to achieve the Joint Municipal Waste Management Strategy.
<b>R2</b>	Continue to seek to minimise procurement risks, working with partners and the new Waste Development Plan Document process, to secure cost effective waste recycling and disposal arrangements, which meet the national and local targets without undue delay and cost.
<b>R3</b>	Ensure appropriate arrangements are put in place for the statutory functions of Clerk, Treasurer and Monitoring Officer.
<b>R4</b>	Strengthen arrangements for preparing group accounts in 2008/09.
<b>R5</b>	Assess and monitor the financial risks of capitalising procurement costs.

# Purpose, responsibilities and scope

- 9 This Annual Audit Letter (letter) summarises the key issues arising from our work carried out during the year. I have addressed this letter to members as it is the responsibility of the Authority to ensure that arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. I have made recommendations to assist the Authority in meeting its responsibilities.
- 10 The letter also communicates the significant issues to key external stakeholders, including members of the public. I will publish this letter on the Audit Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).
- 11 I have prepared this letter as required by the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).
- 12 As your appointed auditor, I am responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, I review and report on:
  - the Authority's accounts; and
  - whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 13 This letter summarises the significant issues arising from both these areas of work and highlights the key recommendations that I consider the Authority should be addressing. I have listed the reports issued to the Authority relating to the 2007/08 audit at the end of this letter.

# Audit of the accounts

- 14** As your appointed auditor, I issued an unqualified opinion on the Authority's 2007/08 accounts on 26 September 2008. Before giving my opinion I reported to the Authority on the key issues arising from the 2007/08 audit. The key issues identified were as follows.
- The group accounts were amended for a significant number of errors. This highlights the need to improve the arrangements and quality assurance processes for producing the group accounts.
  - Some costs (approximately £1.8m) in relation to planning approvals for the development of new waste sites have been capitalised. I highlighted this accounting practice for members ongoing attention as expenditure which does not result in an asset will need to be written off to revenue.
- 15** I will share detailed findings and recommendations with officers to seek to secure improvements for future years.

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## Whole of Government accounts

- 16** In recent years the government has embarked on a programme leading to the preparation of consolidated accounts for the 'whole of government', including local government. The Authority is required to submit a 'consolidation pack' to Communities and Local Government and I am required, as your auditor, to undertake a range of procedures and report on the pack.
- 17** The consolidation pack was audited in time to meet the agreed national deadline. The consolidation pack was amended slightly as a result of my work. There are no matters which I wish to bring to members' attention.

# Authority's use of resources

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## Value for money conclusion

- 18** As your appointed auditor, I am required to conclude on whether I am satisfied the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.
- 19** I concluded that the Authority did have proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. I did not identify any significant issues that warrant the high level attention of the authority.

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## Strategic Waste Procurement

- 20** I have continued to review the Authority's arrangements for managing its lead role in developing the approach to waste disposal solutions alongside its partners.
- 21** Over a five-year period the Waste Disposal Authority has developed, and recently updated, a Joint Municipal Waste Management Strategy (JMWMS) with its District Council partners in Merseyside. It sets out how they, as the Mersey Waste Partnership, will respond to the national waste legislation and achieve national targets to recycle more waste and divert waste from landfill. The current waste disposal contracts with Mersey Waste Holdings Ltd, a wholly owned subsidiary, are coming to an end, and the Authority is working to procure new waste management contracts that will enable the partners to meet the targets set out in the JMWMS.
- 22** Early in 2008, the Authority invited 4Ps (Government Procurement Advisors to Local Authorities) to conduct an independent strategic gateway review of the procurement process, in recognition of the benefits of external scrutiny. 4Ps findings were generally positive, for example, concluding that suitable management arrangements are in place, and the procurement is well managed and structured. 4Ps made some recommendations about the sites and planning strategy, which have now been considered and implemented by the Authority where appropriate.

- 23** The Authority has made steady progress towards procuring new contracts during the year, in particular it has:
- progressed procurement in an open and competitive manner;
  - managed slippage in the procurement of the new waste recycling contract by implementing the contingency arrangements it had prepared, and extending the current contract with Mersey Waste Holdings Ltd from October 2008, until the new contract is in place (currently planned for April 2009);
  - explored whether to have an interim contract pending operation of the new PFI facilities, or purchase allowances under the landfill allowance trading scheme, and has chosen the latter as it is the lower cost option;
  - exercised greater control of the subsidiary company in the transition process to a new operator, including disposal of the company's assets as part of the procurement, following changes made to the governance arrangements last year;
  - continued to closely monitor progress against contract timetables and considered the complexities of the procurement in a transparent manner at formal meetings of the Authority; and
  - continued to regularly report progress to the Merseyside Leaders and Chief Executives Group.
- 24** Last year I reported that partnership arrangements needed to be formalised. However, the Inter Authority Agreement has still not been signed by all members of the Waste Partnership. This is a legally binding document, which will formalise the partnership arrangements to achieve the JMWMS, and provide a clearer framework for the bidders in the procurement process.
- 25** In the last two Annual Audit letters, I identified that a significant challenge facing the Authority and its partners will be in identifying potential sites for new waste disposal and recycling facilities and in securing planning permission from those authorities.
- 26** Progress in negotiations with landowners to acquire sites has been much slower than planned. In view of the risk that it may not be possible to acquire sites through mutual agreement, the Authority has considered it prudent to develop a Compulsory Purchase Order (CPO) strategy. The Authority has estimated that a three-year delay to the waste disposal facilities coming on stream, arising from prolonged planning and CPO determination periods, could increase costs by between £192m and £405m.
- 27** The latest waste forecasts reflect improved waste recycling rates by the District Councils, which reduces the size of disposal facilities needed. In response to this change to requirements, delays in the process, the site needs of the remaining bidders in the procurement, and the introduction of offers from commercial site owners to sell land to the Authority, the Authority has revised its sites and planning application strategy to minimise the procurement risks and continues to keep it under review.

## Authority's use of resources

- 28** Key decisions on the timing of planning applications and site requirements have been postponed until early 2009, when more information about the bidders' requirements will be available. In the meantime, the Authority plans to continue to seek to acquire the priority sites it has identified. The Authority also needs to continue to engage with the new Waste Development Plan Document process, which is a statutory Planning Authority initiative, and to assess the impact on the Authority's site selection process.
- 29** It is crucial to the success of the procurement that the sites acquisition and associated planning application matters are resolved satisfactorily. Otherwise, the contracts may prove to be less attractive to the private sector resulting in less competitive tenders, and delay in the timetable will potentially significantly increase the costs of waste disposal throughout Merseyside. We will continue to review the Authority's arrangements as it proceeds with this procurement.

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## Role of Clerk, Treasurer and Monitoring officer

- 30** The Clerk, Treasurer and Monitoring Office have given their notice to resign from their positions. The Authority has obtained legal advice on the statutory officers it is required to appoint and relevant legal obligations relating to the appointments. On 17 October Members were asked to approve the recruitment process for the statutory officers and also to agree interim measures as the permanent recruitment process will not be concluded prior to the date that the resignations of current officers become effective.
- 31** I understand interim arrangements have been identified for the Clerk and Monitoring Officer functions but not for the Treasurer. I will continue to review the Authority's progress for ensuring that adequate arrangements are put in place to ensure that all statutory functions are delivered.

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# Closing remarks

- 32** I have discussed and agreed this letter with the Director of Waste, the Clerk and the Treasurer. I will present this letter at the Authority on 12 December 2008 and will provide copies to all Authority members.
- 33** Further detailed findings, conclusions and recommendations on the areas covered by our audit are included in the reports issued to the Authority during the year.

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**Table 1      Reports issued**

<b>Report</b>	<b>Date of issue</b>
Audit plan	March 2007
Report to those charged with governance	September 2008
Opinion on financial statements	September 2008
Value for money conclusion	September 2008
Final accounts memorandum	Plan to issue December 2008
Annual audit letter	November 2008

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- 34** The Authority has taken a positive and constructive approach to our audit. I wish to thank the Authority's staff for their support and cooperation during the audit.

**Michael Thomas**  
**District Auditor**

November 2008

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# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

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